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# Topics To Be Discussed:



- **Schedule C**
- **Depreciation**
- **Section 179 deduction**
- **Business use of home**
- **Business use of car**
- **Business and entertainment expenses**
- **Health insurance deductions**
- **Estimated tax**
- **Recordkeeping**



# **What is Self-Employment Income?**

- **Arises from the performance of personal services**
- **Cannot be classified as wages**
  - **Employer-employee relationship does not exist between the payer and the payee**
- **Conditions of independent contractors:**
  - **The person paying for the services does not have to withhold taxes from earned pay;**
  - **Payer reports earnings on Form 1099-MISC when \$600 or more is paid in the calendar year and not on a Form W-2 which is for employees**



# Self-Employment Tax Is:

- **Social Security and Medicare tax primarily for individuals who work for themselves**



# Form 1099



- A self-employed taxpayer may receive a Form 1099-MISC with income reported in box 7, non-employee compensation.
- *Even when no Form 1099-MISC is received, ALL income must still be reported.*





# **Schedule C, *Profit or Loss from Business***

- **Self-employed individuals must report their business income and expenses separately from their other income and expenses.**
  - **Direct sellers are considered sole proprietors.**
- **Separate reporting is accomplished by using Schedule C or C-EZ to report business income and expenses.**
  - **A business maintaining an inventory must use Schedule C instead of C-EZ to account for cost of goods sold.**

# Schedule C (cont'd)



- Enter ALL business income on Schedule C (or C-EZ), then subtract allowable business expenses.
- Enter the net profit (or loss) figured on Sch C on Form 1040, Line 12 for income tax purposes.
- Net profit is also subject to self-employment tax which calculates on Schedule SE.
- Business profit (loss) is added to (subtracted from) other income on Form 1040 to compute total income before adjustments, line 22.



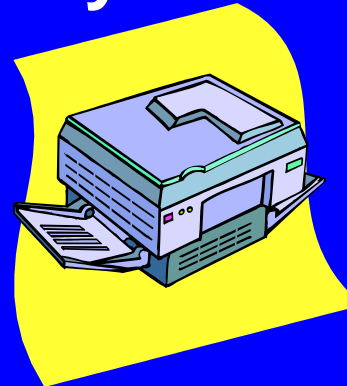
# Depreciation



➤ Business assets placed in service for the tax year 2009 are generally depreciable over three, five, or seven years.

➤ Examples of five-year property are:

- Cars
- Computers
- Copiers
- Calculators





# Section 179 Deduction

- For qualifying business property placed in service in 2009, use the section 179 deduction to recover all or a greater part of the cost than depreciation allows.
- Due to the Economic Stimulus Act of 2008, a section 179 deduction of up to \$250,000 can be taken on Form 4562 for qualified businesses.



# **Section 179 – Eligible Property**



- **Includes tangible personal property such as machinery, cars, and equipment.**
- **Property must be purchased for use in your trade or business.**
- **Property must be used more than 50% for business in year placed in service.**
  - **Multiply the cost of property by the percentage of business use.**

# Special 50% Bonus Depreciation



- The American Recovery and Reinvestment Act of 2009 allows a business to deduct the special 50% bonus depreciation allowance for certain property first purchased for business and placed in service in 2009.

# You Can Take the Home Office Deduction If:



## You must meet the Regular & Exclusive Use Test:

- The home office must be used exclusively for business and on a regular basis.
- It can be a regular storage place, only for a business inventory.

## You must meet the Principal Place of Business Test:

- A portion of your home is the principal place for meeting with your clients in the running of your business, or;
- It is a separate structure NOT attached to your home.

# Principal Place Of Business Requirements



- Location is used exclusively and regularly for administrative or management activities of the business
- There is no other fixed location where substantial administrative or management activities of the business is conducted.
- (“Principal” can refer to the place where you earn most of your business income)

# You Cannot Take the Home Office Deduction If:



- You do not have an *exclusive* use.  
(e.g., others in home use the room or computer in it for homework or other personal reasons, etc.).
- You are an employee or partner of the company.
- The room is not used *exclusively* for business purposes.



# Business Use of Home



➤ The business percentage of the expenses listed below are generally deductible on Form 8829:

- Mortgage interest
- Real estate taxes
- Utilities
- Repair/maintenance of your home
- House insurance
- Depreciation
- Rent

➤ The expenses that benefit only the business part of your home are 100% deductible (e.g., painting, decorating, etc.).



# Business Use of Car – Actual Expenses



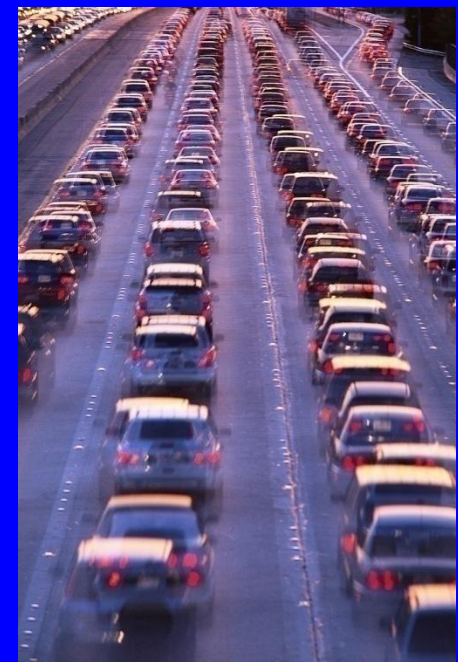
- Depreciation/lease payments
- Gas/oil
- Insurance
- Licenses
- Registration
- Tires, repairs
- Interest on auto loan (non-lease)
- Taxes (depending on use of vehicle)
- Parking fees & highway tolls
- Garage rental space (if applicable)
- Always maintain a mileage log



# Business Use of Car Standard Mileage Rate



- If you choose the standard mileage rate, you must choose it the first year the car is placed in service.
- The standard business mileage rate is 55 cents per business mile driven in 2009, and 50 cents per mile in 2010.
- Parking fees, tolls, etc.
- Always maintain a mileage log.



# Business Meals and Entertainment Expenses



- You may deduct 50% of business-related meals and entertainment expenses:
  - Traveling away from home on business.
  - Entertaining customers at a restaurant or other location.
  - Attending a business convention or business meeting.
- Good recordkeeping is important to claim these expenses.

# Advertising Expenses



- *You may deduct* the following costs as advertising expenses:
- Business cards
  - Newspaper ads
  - Greeting cards sent to customers
  - Cost of sales literature



# Other Deductible Business Expenses



- **Commissions and fees**
- **Product and liability insurance**
- **Interest on business loans**
- **Legal and professional services**
- **Office expenses**
- **Rent on business property**
- **Repairs and maintenance on office equipment**
- **Taxes and licenses**
- **Supplies**
- **Business telephone**
- **Professional dues and trade publications**
- **Freight charges**
- **A preferred customer program**
- **Gifts – limited to \$25 per person/calendar year**



# Health Insurance Deduction



- The self-employment health insurance deduction is 100% of the amount paid for medical and qualified long-term care insurance for the self-employed person and family members.

# Estimated Tax



- **Generally, you must make quarterly estimated tax payments on self-employment income if you expect to owe \$1,000 or more.**
- **Due dates for quarterly estimated tax payments are:**
  - **April 15, 2010**
  - **June 15, 2010**
  - **September 15, 2010**
  - **January 15, 2011**

***(unless these dates fall on a weekend or holiday)***





# Making Estimated Tax Payments

- **Complete Form 1040-ES, *Estimated Tax for Individuals*, to determine your estimated tax for the year and divide that amount by four.**
- **Submit your payments with Form 1040-ES payment vouchers.**
- **Recalculate if your income fluctuates for a certain quarter.**

# 2009 Change



- **Maximum net earnings subject to the social security part of self-employment tax increase from \$102,000 to \$106,800 for 2009.**
- **There is no limit to the Medicare Tax, and it provides you no added benefit.**

# **Recordkeeping: Inventory**



## **Keep Copies of:**

- **Each order form**
- **Packing slip/invoice received with goods shipped to you**
- **Personal use records**
- **Copies of money orders, checks, credit card receipts for purchases**
- **Inventory count as of December 31<sup>st</sup> each year**

# Other Records to Keep



- **Copies of sales tickets**
- **Form 1099-MISC**
- **Income advisory statement**
- **Monthly statements**
- **Bank deposits and statements**



# NOL Carryback Change

- The American Recovery and Reinvestment Act of 2009 provided that all businesses with average gross receipts of less than \$15 million could elect to carry back net operating losses (NOL) from 2008 for 3, 4 or 5 years instead of the normal two years.

# NOL Carryback



- The new act extends that option for taxpayers for an NOL incurred in 2009, but placed a 50-percent of taxable income limit on the NOL offsets in the fifth carryback year. Struggling businesses can benefit by carrying back the NOL to a profitable year allowing the business to get a refund of much needed cash.

# Questions?



- Liberty Tax Service has 3,300 offices in U.S. and 250 in Canada
- 866-871-1040 rings into the nearest office from a landline phone
- Visit [www.libertytax.com](http://www.libertytax.com) for the latest company news





Thank You

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